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UNCLAS HANOI 002221

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E.O. 12958: N/A

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SUBJECT: STATUS OF VIETCOMBANK EQUITIZATION

1. This cable contains sensitive information and should not be placed on the internet.

2. (SBU) Officials at Vietnam's largest State-owned commercial bank (SOCB), Vietcombank, intend to finish "equitizing" (i.e. issuing shares) by the end of 2006, and may even have listed on the Ho Chi Minh City stock exchange by that time. Although the State Bank Governor has already approved Vietcombank's equitization plan, the final decision rests with the Prime Minister. The Prime Minister has already agreed to allow the bank to hire a foreign consultant to value its assets and a foreign underwriting firm to handle the transaction as well as possibly seeking a foreign strategic partner. The MOF and SBV will have to select the foreign consultant. While officials will not name a target date, press reports say that valuation will begin in December 2005. Vietcombank officials expect the Government is likely to keep from 60 to 70 percent of equity initially, but to gradually reduce this to 51 percent for at least three to five years after the IPO. Vietcombank officials also do not expect the Government to relax its 30 percent cap on foreign investment in financial firms, nor its 10 percent cap on individual foreign holdings in the near future.

3. (SBU) Vietcombank's planned equitization is one element of a larger restructuring process that began in 2000. The World Bank and the Dutch Government have been providing technical assistance to help Vietcombank value and settle its bad debt. In 2000-2001, Vietcombank settled a large proportion of its non-performing loans, either by seizing collateral or writing off bad debt. The bank reported an initial USD 300 million in non-performing loans before the restructuring, but this total is based on Vietnamese accounting standards, which are more lenient than international standards. The restructuring effort has been slow, but Vietcombank officials hope the move toward equitization will help jump-start much needed internal reforms. They also hope to expand the bank's services to include insurance, fund management and investment banking.

4. (SBU) Vietcombank continues to make plans to raise capital with the clear intention of selling its shares to the public in the future. To generate capital before its anticipated initial public offering (IPO), Vietcombank's General Director has announced plans to issue 5 to 7-year convertible bonds in September. Currently, Vietcombank's equity capital is estimated at VND 7 to 8 trillion (about USD 433 to 506 million). The VND 2.5-3 trillion (about USD 158 million to 198 million) bond sale will be open to the Vietnamese public, but not to foreigners. Vietcombank's capital adequacy ratio is about five percent, whereas the international standard is eight percent. Bank officials expect capital adequacy to increase to between six and seven percent after selling the convertible bonds, and then to eight to ten percent after the IPO. According to press reports, Vietcombank recorded the highest growth rate among domestic banks during the first half of 2005, reaching VND 1,297 billion (about USD 82 million) in pre-tax profits, up 41 per cent from the same period last year and accounting for 18 per cent of the total profit made by Vietnamese credit institutions. The first SOCB to enter the ATM market, Vietcombank now has some 400 machines nationwide.

5. (SBU) Comment: Despite many overtures about going public, preparation for Vietcombank's equitization has been a slow process that still hinges on the Prime Minister's approval. Disagreements among various ministries about whether to issue preferential bonds, as well as a reluctance to adopt international accounting standards, have repeatedly led to delays. The Government's stated willingness to allow foreign consultants to value Vietcombank's assets is a positive sign. However, to attract private foreign and domestic investors, Vietcombank will need to disclose much more financial information during the equitization process than it or any other Vietnamese bank has so far. End Comment.

MARINE